

Message Text

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ACTION EUR-25

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FM AMEMBASSY ROME

TO SECSTATE WASHDC IMMEDIATE 5322

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY THE HAGUE

US MISSION EC BRUSSELS

C O N F I D E N T I A L ROME 8075

PASS TREASURY AND FRB

E.O.11652: GDS

TAGS: EFIN, IT, PINT

SUBJECT: ITALIAN GOVERNMENT CRISIS: UNOFFICIAL PLEAS FOR US ASSISTANC

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REF: A. ROME 7977; B. ROME 8006 NOTAL

1. BEGIN SUMMARY. SENATOR MORLINO, UNDER SECRETARY AT THE
MISISTRY OF BUDGET AND ECONOMIC PLANNING AND MEMBER OF THE LEFTISH
MORO FACTION OF THE DC, DISCUSSED THE GOVERNMENT CRISIS WITH ECON-
COMM MINISTER AND EMBOFF JUNE 11 AT HIS INITIATIVE. HE RELATED
THAT CHRISTIAN DEMOCRATS AND SOCIALISTS HAD COME VERY CLOSE TO
AGREEMENT, DESCRIBED REASONS FOR FALL OF GOVERNMENT, AND SUGGESTED
THAT US GOVERNMENT ASSURANCE OF SOLIDARITY WOULD BE HIGHLY USEFUL
MEASURE IN EFFORTS BY FUTURE GOVERNMENT TO AGREE ON STABILIZATION
PACKAGE. HE HAS NO IDEA OF WHAT NEXT GOVERNMENT WILL LOOK LIKE.
END SUMMARY.

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2. MORLINO TOLD US THAT DC (COLOMBO) AND SOCIALISTS (GIOLITTI) HAD REACHED AGREEMENT ON A COMBINATION OF TAX INCREASES AND INCREASE OF PRICE OF GASOLINE, ELECTRICITY, TRANSPORT AND OTHER GOVERNMENT SERVICES

YIELDING A SIGNIFICANT IMPROVEMENT IN GOVERNMENT FINANCES. THE TWO PARTIES ALSO AGREED ON CREDIT RESTRAINT BUT COLOMBO HAD REFUSED SOCIALIST PROPOSAL THAT CREDIT CEILING BE REVIEWED IN 90 DAYS ON GROUNDS THAT REVIEW PROVISION WOULD BE LIKELY TO SLOW PROGRESS OF REFORM LEGISLATION THROUGH PARLIAMENT. THIS WAS PROXIMATE REASON FOR CRISIS.

3. UNDERLYING REASONS, MORLINO SAID, WERE THREE FOLD:

A. POLITICAL DIFFICULTY OF PROGRAM. SOCIALISTS FELT THEY WERE STRETCHING TO THE LIMIT THE POSSIBILITY OF UNION ACCEPTANCE OF THE PACKAGE AND HAD PERHAPS GONE TOO FAR. DC ON OTHER HAND WAS CONCERNED THAT DISPROPORTIONATE WEIGHT OF THE PROGRAM WOULD FALL ON UNORGANIZED MIDDLE CLASS, WHICH IS IMPORTANT ELEMENT OF DC ELECTORATE

B. THESE SPECIFIC FEARS WERE AGGRAVATED BY A DETERIORATION OF CONFIDENCE BETWEEN DC AND SOCIALISTS, A DETERIORATION WHICH PRO-NOUNCEMENTS OF VETERAN SOCIALIST LEADER NENNI HAD FANNED.

C. REFERENDUM RESULTS HAD MADE SOCIALISTS MORE SELF ASSERTIVE AND THEY HAD SEIZED ECONOMIC PACKAGE AS AN ISSUE ON WHICH TO EXTRACT WHAT THEY CONSIDER EQUAL TREATMENT FROM CHRISTIAN DEMOCRATS BASED ON THEIR FEELING THAT HERETOFORE THEY HAD BEEN TREATED AS JUNIOR MEMBER OF THE CENTER LEFT COALITION.

4. MORLINO STRESSED THAT LACK OF INTERNATIONAL SUPPORT HAD HAD A NEGATIVE EFFECT. IN PARTICULAR, HE BELIEVES THAT A TELEGRAM FROM THE UNITED STATES PROCLAIMING US SOLIDARITY WITH ITALIAN DEMOCRATIC FORCES COULD HAVE HAD A DECISIVE EFFECT BY ALLOWING COLOMBO TO DEMONSTRATE THAT INTERNATIONAL ASSISTANCE WOULD BE FORTHCOMING TO INSURE THAT THE STABILIZATION MEASURES WOULD BE SUCCESSFUL. ECMIN POINTED OUT THAT COLLAPSE OF THE GOVERNMENT HAD BEEN SUDDEN AND UNEXPECTED, THAT INTERNATIONAL COMMUNITY EXPECTED GOI TO PRODUCE A PACKAGE AND THAT IN THESE CASES GOVERNMENTS PREFER TO HAVE CONFIDENTIAL

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A CHANCE TO LOOK AT THE MEASURES UNDERTAKEN PRIOR TO COMMITTING THEMSELVES. IN PERSONAL CAPACITY ECMIN STRESSED THIS CONVICTION THAT A SET OF SUITABLE MEASURES COULD MARSHALL SUBSTANTIAL INTERNATIONAL SUPPORT FOR A PROGRAM WHICH WOULD PERMIT CONTINUATION OF HIGH LEVEL ECONOMIC ACTIVITY AND EMPLOYMENT ACCOMPANIED HOWEVER BY TEMPORARY DIMINUTION IN PERSONAL CONSUMPTION.

5. MORLINO SAID HE WAS TOTALLY UNABLE AT THIS POINT TO JUDGE

WHAT THE NEXT GOVERNMENT MIGHT LOOK LIKE. HE FEELS IT WILL BE AT
LEAST SEVERAL DAYS BEFORE PRELIMINARY EVALUATIONS ARE POSSIBLE.
HE POINTED OUT THAT IN THE PRESENT CIRCUMSTANCES CANDIDATES FOR
FORMING A NEW GOVERNMENT ARE NOT PRESSING THEMSELVES FORWARD.
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